G. R. S. IX-5]

Previous references.

S.F 62-16 Sh 1, B. Jany 1916-17
" (S.F)

Later references.

G# 35-19 Sh: 1-4, B & Sup B2 for Feb 7/1920.

File No. 247-16

Serial Nos. 3

GENERAL AND REVENUE SECRETARIAT.

Pa HI-E *Serial No.* 3

Part B for July 1918

SUBJECT.

Review of the Present Financial position -

3. To
The Comptroller
" Secretary to Govt.
" Heads of Depts.
No M 601-50 dated 30-7-18

Directs that after the budget estimates of each year are finally settled a triennial forecast should be prepared reviewing the capital programme and general financial condition of the State and the ways and means of the for 3 years ahead and submit to Govt. for orders & accordingly requests the comptroller to prepare

W D 88—GPB—50,000—24-7-18

a forecast for the triennium commencing with 1915-19 & submit the same by 31st August before the end of August 1918.

M. Sundaram Aiyar
retired.
6-8-18.

G. R. S. 11] 1916.17

GENERAL AND REVENUE SECRETARIAT.

(Gen Sec)

NOTES.

B7
File No. 247/11

FILE HEADING.

Review of the Present Financial ...

From

No.	Dated	Received

Diary No.	Enclos.	Spare Copies.	Serial No.

BRIEF ABSTRACT OF LETTER.

NOTES AND ORDERS.

Extracts from file relating to questions raised by the First Member of Council (Mr. A. R. Banerji) in regard to Budget procedure &c.

P.T.O

NOTES—First Sheet.

G. R. S. 12]

General and Revenue Secretariat. | 87 File No. 247 of 1916.

Serial No.	Proposals of First Member	Remarks by Finl: Secretary	Opinion of Council.
9	A Comprehensive review of the present Financial position may be ordered to be made by the Financial Secretary.	It is desirable to make a Comprehensive review of the present financial position. Mr. Datta may be requested to lay down the lines for doing this. A quinquennial review for the period from 1904-05 to 1908-09 was made by me and Subd to Govt on 8th Novr 1910. The next review embracing 6 or 7 years will be made along the lines which Mr. Datta may suggest	The next review may be made by the Financial Secretary, after Consulting Mr. Datta as to the lines of review.

NOTE—Contn. sheet.

GPB—70,000—17-12-15

G. R. S. 12]

General and Revenue Secretariat.

File No. 286 of 1916.

Serial No.	
	Subs Hon. 15/8/16 F(Ver?) 16/8.
	Mr Datta) 18/8

NOTE—Contn. sheet.

GPB—70,000—17-12-15

Method of preparing a review of the present financial position of the state

CONFIDENTIAL

The Council has directed that the Financial Secretary should prepare a comprehensive review of the present financial position of the state after consulting me as to the lines on which the review should be prepared.

It is difficult to lay down theoretically the lines ~~as to how~~ on which the financial review ~~has to~~ shows be prepared. I should like to prepare it myself as in the course of its preparation many things would be brought to light which I cannot possibly anticipate now and which can strike me only after a detailed examination of the statistics of revenue and expenditure. Briefly the process should be as follows:- Each head of revenue should be examined in detail with a view to see how the revenue has grown in the past, whether all demands have been realised duly, whether the growth has been satisfactory, what steps can be taken to improve it in future and what can be taken as a reasonable estimate of its growth in future. As regards expenditure, each head should also be similarly examined and optional and obligatory expenditure should be separated. It should be seen how far the growth of both obligatory and optional expenditure was justified and what steps should be taken to keep down expenditure without affecting the efficiency of the administration and then to frame an approximate estimate of the probable rate of growth of the obligatory and optional expenditure under each head in future.

2. In this way an estimate should be prepared of the probable rate of growth of the revenue and expenditure of the State under all the major heads of account and it should be seen whether the growth of expenditure is fully covered by the growth of revenue and what surplus if any is left to meet further optional expenditure. If a surplus is left after meeting all reasonable requirements on account of optional expenditure and expenditure on account of the economic development of the country and a small reserve of say 1 or 2 lakhs a year to meet unforeseen contingencies, such surplus may safely be devoted to meet charges for interest on debt incurred for productive public works. Even if a work

should

should be really productive, it cannot be expected to meet the charges on the capital spent on it during the period of its construction and possibly for some years after its completion. Before therefore deciding to construct any public works out of borrowed funds, the State should satisfy itself, that its normal revenues would yield a surplus sufficient to meet not only the charges for interest on the capital expenditure during the construction of the works, but also to meet the deficiency in the net earnings of the works for some years after their completion. So much of the surplus revenues of the State should be taken as hypothecated to meet liabilities involved by the construction of productive public works from borrowed funds.

3. The revenue derived from the Gold Mines and that derived from the Cauvery Power Works introduce a further complication in the matter. These revenues are said to be more or less temporary, and it has been held that they should not be applied at all to meet the ordinary requirements of the State. This view also appears to me to be erroneous. It is undoubtedly one of the first duties of the State to see that its resources are not permanently impaired and that its recurring and obligatory expenditure is not raised with reference to revenue which can be looked upon only as temporary, so that when such revenue disappears, it may not be put into a difficult position to meet its recurring and obligatory expenditure.

4. If

4. If these items of revenue were purely temporary, that is lasting for a few years only, or in other words, if they had been purely wind falls, it might have been desirable not to apply them for the ordinary requirements of the country but to hold them as a reserve to meet unforeseen contingencies, or to invest them in productive capital works. They are however likely to last for a long time and will not decline except very slowly and will not disappear altogether except after a very long time. All that therefore appears to be necessary, is to invest such a share of these revenues as in the end will produce from the accumulated investments, an amount of revenue equal to that at present yielded by the properties. The remainder left after the investment of the above share, could certainly be applied to meet the ordinary requirements of the country. The next question is in what form should this reserve be held. I am undoubtedly of opinion that it would be far better to invest them on productive public works rather than in Government of India or other securities.

5. In these circumstances it will be necessary to calculate, however roughly it may be possible, the life of these items of revenue, and from this to determine what share should be invested as a reserve and what share can be applied to meet the ordinary requirements of the State. The share which has to be invested may be safely applied towards meeting interest and sinking fund charges on account of loans raised for the construction of productive public works. There would be no objection to raise such an amount, by external loans for the construction of productive public works, as can be safely estimated to be repaid from the investible share of the

the revenue from these sources as long as they last, so that, when these revenues are exhausted, the State may have property, in the shape of productive public works, yielding revenue equal to the revenue at presen derived from these sources. This would amount to spending the revenues from these sources before they actually accrue but I see no objection to such a course, as posterity will get the benefit of these productive public works in lieu of the income from these valuable properties and will not be able to complain that the revenue yielding properties of the State have been impaired. It is therefore necessary, as mentioned above, to get a fairly reliable estimate of the life of the gold mines. The decline in the revenue which they are yielding, will undoubtedly be very slow, but it should be possible to make a fairly reliable estimate of the revenue which can be expected to be derived from them for the next 25 or 30 years. The revenue from the Cauvery Power Works stands on a different footing. It is true a considerable part of the revenue at present derived from them, comes from the Gold Mining Companies, but it is difficult to believe that after the Gold Mines have been exhausted, the power works will remain idle altogether, and will cease to yield any revenue. As the country progresses, other industrial companies are bound to start and to be able to utilise the power generated though it might not be to the extent that the Gold Mining Companies are doing at present. This question will also have to be carefully considered.

6. It will thus be seen, that an examination of the financial position of the State will require a careful and thorough investigation of the details of the revenue and expenditure under all the heads:

and

and I am of opinion that mere general directions will not be sufficient for such a general review to be prepared. The investigation is bound to bring to light new factors which it is not possible for me to anticipate now. I therefore propose to do it myself with the permission of the Government if it is prepared to allow me the time required for it.

Point for order I

This has been done by Mr. Datta in his note on Decentralisation of Finance. Vide his final paragraph of Heading

7. In order to see what I am able to do by a mere superficial examination of the records and notes on the subject, I have gone through the last two triennial Ways and Means fore-cast but I regret that I am unable to follow the reasons adduced and the arguments appear to me to be fallacious. In the budget estimate for 1914-15 a new head was opened namely, "Capital outlay not charged to revenue" and since 1912-13 a considerable part of the capital expenditure has been shown in the estimates outside the revenue account. But in the actual accounts, the whole of the capital expenditure has been charged against Government, in the same way as before, which practically amounts to charging the capital expenditure against revenue. Even in the estimate, a part of the capital expenditure on Railways and the Cauvery Power Scheme, has been provided against revenue. This is probably on the contention, that this additional expenditure is not likely to bring in additional revenue. If the expenditure is on renewals only, it ought to be treated as working expenses and not as capital expenditure. I therefore believe that the expenditure is not on renewals but for development of the railways and the Power Works. I do not know why the expenditure should be considered as not producing additional revenue, but even if it does not do so, the policy of charging it to revenue

revenue is not justifiable, considering the fact that the whole of the capital expenditure on these works have been found in the past, from the current revenues of the State. These works are productive in every sense of the term, and the State would have been perfec ly justified in meeting the expenditure on them from borrowed funds, but happily the enormous profits, which the Cauvery Power Scheme has yielded in the past and the other revenues of the State, have enabled it to meet it from its revenue surpluses, and it has not been necessary to meet the expenditure from borrowed funds. This being so, it would be quite legitimate, for the State, to meet any further capital expenditure on the works, from borrowed funds, even if such expenditure may not be productive in itself.

8. The calculations in the last ways and means estimate start with the balance at credit of the head "Government Account". But when capital expenditure is debited to the same account, its balance necessarily represents the accumulated surplus less what has been spent for capital expenditure, in other words, capital expenditure continues to be met only from the accumulated surplus hoarded by the State from its surplus revenues, though not necessarily from the surplus revenues of the particular year. If this were the policy of the Government, there is no object in showing capital expenditure outside the revenue account, except that it is not to be met from the surplus of the particular year, which, of course, would never be possible, considering the magnitude of the capital expenditure which is now being incurred and which is contemplated to be incurred in the immediate future, but it amounts to holding that it should be

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met only from the surplus accumulated in the past. This is quite a different thing from meeting capital expenditure from borrowed funds. I have already explained that the State would be fully justified in meeting its capital expenditure from borrowed funds, if it can only meet the interest during construction and the sinking fund ~~x~~ charges on such capital from its current revenues. It would be quite correct to do so even if the State has no accumulated surplus, and its revenues were just sufficient, after meeting its current expenditure, to leave a surplus sufficient to meet the interest and sinking fund charges referred to above. and the sum required for a capitalisation fund for the

mining Revenue. The State was however in a specially favourable position by having a large accumulated surplus, 3 or 4 years ago. It was not enough simply to have invested this surplus on productive public works, but it would have been perfectly justifiable to have borrowed a much larger amount for productive public works, namely such an amount as could be repaid, in 25 or 30 years, by a sinking fund started with the hoarded surplus and accumulating at compound interest. This would have enhanced the borrowing capacity of the State by 400 per cent more than the accumulated surplus, i.e., if the State had a surplus of 1 crore, it could have invested it in a sinking fund, and borrowed 400 lakhs for productive public works. The Sinking Fund would accumulate while the revenues from the works could be applied to meet the interest on borrowed capital. In estimating the current revenues the interest on the accumulated surplus should, of course, be neglected.

9. It is true that some of the balances under the deposit heads have been proposed to be spent on productive public works and this supports to some extent a policy of meeting capital expenditure from borrowed funds, but I find that the Government, in their Order No. Financial 2685/G.F.116-15-1 dated 15th December 1915, have held that, though temporary utilisation of a part of the deposit funds held by Government is not attended with any risk, still "it would be desirable to repay this temporary loan from the deposits as early as practicable", i.e., to find the capital expenditure temporarily met from these balances, from the surplus as soon as possible and to hoard it again. I am sorry I am unable to see the reasons underlying this decision. If it is desirable to meet capital expenditure from borrowed funds, the cheapest way would be to utilise a part of the deposits held by Government a part which is not likely to be required soon for meeting demands on account of the repayment of such deposits, instead of raising the funds, required for capital expenditure, by a loan. The idea pervading throughout these arguments, seems to be that capital expenditure must ultimately be found from surplus revenues, i.e, the present generation must be taxed to provide for additional resources for posterity. If a loan were raised, it would certainly not be possible to repay it within a short time. If, therefore, deposit funds are utilised in lieu of raising a loan, I can see no reason why it should be desirable to repay such deposit funds "as early as practicable." It may be desirable to repay loans raised by a Sinking Fund. If so the utmost that could be required, also in the case of deposits utilised for the same purpose, would be that the deposit funds should also

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be repaid in exactly the same way, even though the portion of the deposit funds, to be utilised for capital expenditure, is never likely to be required for the actual repayment of the deposits. The replenishment of Government reserves, with a view to place them in a position to repay them, may be viewed in the same light as a Sinking Fund for the repayment of a loan, with the additional advantage that such a reserve would be available again for expenditure on new productive works.

10. I am unable also to accept the estimates adopted, in the Ways and Means note, of the proportions of the deposit and other balances which can be utilised for capital expenditure.

11. The last triennial ways and means estimate dated the 22nd July 1916, was based on the revised estimates for 1915-16. According to these estimates the Balance Sheet of the Government was as follows, the amount taken as available for capital expenditure being shown against each. As mentioned above, in my opinion, the proportions are in most cases too low and the amounts which I should consider as available are noted in a separate set of columns: ----

DEBIT BALANCES.

	Estimated balance on 1st July 1916	Comptroller's estimate of amount which can be utised for capital expenditure.		My Estimate	
		Proportion.	Amount.	Proportion.	Amount.
1. Market value of Investments held by Government	241,67				
2. Loans and advances made by Government.	32,34				
3. Cash Balance	69,85				
Total	343,86				

CREDIT BALANCES.

1. Loans raised by the State	20,33	Whole less Sinking Fund.	6,67	Whole less Sinking Fund	6,67
2. Unfunded Debt:-					
(a) Savings Bank Deposits	68,13.	50	34,06	50	34,06
(b) State Life Insurance Fund..	36,38	75	27,28	90	32,75
(c) Provident Fund.	60	75	45	90	54
(d) Charitable and other endowments, etc.,	6,35	whole	6,35	whole	6,35
3. Deposits:-					
(a) Local and other Funds	37,82	nil.		75	28,37
(b) Other deposits & miscellaneous	45,81	25	11,45	80	36,35
4. Cauvery Power Scheme.. Depreciation Fund ..	33,78	one half	16,89	whole	33,78
5. Famine Relief Insurance Fund ,, ...	20,00	nil	..	nil	..
6. Government account ,,,	74,66				
Total ...	343,86		103,15		178,87

12. The Ways and Means estimate takes into consideration the credit balances only, and the only point considered is, how much of the balance under each head is available for expenditure by Government. Personally, I would have determined the amount simply by taking into consideration the cash balance and the investments held by Government, and by deducting from the total, the amount, which it is necessary for Government to hold as a cash balance, and the amount which it is necessary for it to hold as an invested reserve to meet its various liabilities, all excess investments being considered available for sale and utilisation for expenditure. The results, calculated in both ways, should however be the same though in my opinion, my system is less technical and can therefore be easily understood by a person even though he might not be an expert accountant. The total omission of the credit balances has led into a serious error in the calculations of the Ways and Means Estimate. It merely calculates the share of the debit balance under each head, which is not likely to be required soon for the discharging of the liability represented by it, but it appears to have been overlooked, that a part of these balances has already been utilised by Government in making advances &c., which are represented by the credit balances and are therefore not available to be utilised again for capital expenditure, as these advances cannot be realised at once.

13. The heads in regard to which I am not prepared to accept the proportions proposed are 2(b) and (c), 3, and 4. In all these cases the proportions appear to have been fixed arbitrarily, whereas, in my opinion, they should have been fixed after a consideration of the fluctuations in the balances

under

under the heads during the last few years. The fo
statement shows these fluctuations:--

(In thousan

	1904-05	1905-06	1906-07	1907-08	1908-0
Savings Banks	89,16	95,34	69,85	73,52	71,76
Life Insurance	11,41	12,84	14,61	16,48	18,03
Provident Fund	-	-	-	-	-
Endowments	3,27	3,27	3,27	3,97	4,42
Local & other Funds	14,12	14,56	17,79	20,92	21,99
Other deposits	9,77	12,25	17,38	18,07	17,10
C.P.Depreciation Fund	-	-	-	-	10,06
Famine Insurance Fund	-	-	2,00	4,00	6,00
Sinking Fund	-	-	1,33	2,67	4,00
Guaranteed Railways	-	-	-	-	-
Mysore Infantry Retiring Fund...	-	-	-	-	-

lowing

s of rupees.)

1909-10	1910-11	1911-12	1912-13	1913-14	1914-15	Average receipts (annual)
68,05	67,34	72,66	76,73	76,94	68,63	..
20,19	21,95	24,24	26,70	29,47	32,66	2,72
-	-	-	-	-	-	..
5,02	5,21	5,54	5,67	6,12	6,23	30.
22,83	25,85	29,34	33,22	33,34	32,49	1.84
7,84	6,75	10,87	7,92	12,75	20,85	1,10
16,99	19,83	22,69	25,58	28,50	31,20	3,00
8,00	10,00	12,00	14,00	16,00	18,00	2,00
5,23	6,67	8,00	9,33	10,67	12,00	1,33
-	-	-	-	-	13	.
-	-	-	-	6	18	10

14. Under 'Life Insurance' and 'State Provident Funds' only 75 per cent has been taken as the proportion which can be utilised. Both these funds are growing and will continue to grow for years to come. Ordinarily the receipts of any year will not only be quite sufficient to meet all claims that may arise during it, but they will leave a sufficiently large surplus. No one would propose to spend these receipts for the requirements of Government for expenditure which ought to be met out of revenue. When the State has to pay interest on these receipts, they should undoubtedly be invested, but the question is whether investment on capital works of the State is as sound as in Government and other securities. If invested on capital works they will certainly be not readily available to meet claims in cash. But, as I have said above, it should always be possible to meet such claims from the current receipts on account of the respective funds. Should any extraordinary circumstances arise, Government ought to have no difficulty in meeting such claims by borrowing. As a precaution however I would concede that we should keep 10 per cent of the balance invested in securities which can be readily disposed of. Ten per cent of the total balance ought to be enough, instead of 25 per cent as suggested in the Ways and Means Notes.

15. The balances under "local and other funds" have not been taken into account. It is probably held that the State should keep the whole of these balances in reserve and ought not to spend any portion of them, even for capital expenditure, in as much as, the local funds concerned might draw upon their balances. I would however point out, that the local funds concerned can never exhaust

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exhaust the whole of their balances. Just as it is necessary for the Government themselves to have a proper cash balance in order to carry on their transactions, in the same way, it is necessary that these local funds also should maintain a balance sufficient to enable them to carry on their transactions. In fact a part of the cash balance, which------ it is considered absolutely necessary for the State to maintain as a working balance, should be found by these local funds. Seventy five per cent of the balances of these local funds may, I think, be safely utilised by the State for capital expenditure.

16. Under 'other deposits' 25 per cent of the balances have been taken as capable of being utilised. These balances have not fluctuated to any substantial extent in the past. I think they are never likely to go down to any material extent in the future and, also, even if there was a decline, it will not cause any undue strain on the working cash balance of the State. I am therefore of opinion that 80 per cent of these deposits are available for utilisation by Government.

17. As regards the Cauvery Power Scheme Depreciation Fund only one-half of the balance has been taken as the amount that can be utilised by Government. As regards the necessity for maintaining such a fund, I shall submit my views in detail hereafter. For the present we may assume that it is necessary to follow the existing procedure of charging against revenue a certain sum annually on account of this fund. I do not however agree that any portion of it need be kept as a reserve in liquid securities. The whole of the capital expenditure of the Cauvery Power Scheme, has been found from the revenue surpluses of the State. Considering the fact that the scheme has been found eminently

eminently successful as a productive public work, there can be no doubt that the State would have been justified in meeting the capital expenditure on the scheme from borrowed funds. The enormous surpluses of the State have however enabled it to meet all this expenditure without raising any loans for the purpose. It therefore seems to me perfectly justifi ble to hold, that, when the occasion arises to replace any of the machinery or works connected with the scheme, the expenditure on such renewals should be met from borrowed funds. In fact even assuming that future capital expenditure has to be met from revenue, I can see no reason why we should be required to hold the reserve formed by charging a sum annually to the revenue account in the form of liquid securities. The whole question is, can the expenditure in any particular year be so large as to make it doubtful that the State would be able to raise it by a loan or otherwise when the occasion for it arises. For instance in the case of the Famine Insurance Reserve, it is considered necessary to hold the reserve in the form of liquid securities, because if there is actually a severe famine in the country, the State might find it difficult to raise the funds required to enable it to pull through. The expenditure on ~~any~~ renewals on the Cauvery Power Scheme stands entirely on a different footing. If the State embarks on a policy of borrowing for capital expenditure, it would undoubtedly be more profitable and desirable, on economic grounds also, for the State to invest on its productive public works, all reserves maintained by the State, unless they are intended to meet difficulties which might arise suddenly and at a time when it might be difficult to raise the money by a loan. The investment of the reserves on productive public works, merely means that the necessity

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necessity for borrowing funds to the extent of the reserve is postponed to a future date, when the occasion for which the reserve is maintained actually arises. I consider the financial position of the State to be quite sound and no difficulty need be anticipated in the State being able to raise any funds, which may be required for renewing any parts of the machinery or works connected with the Cauvery Power Scheme. I am thus of opinion, that there would be no risk whatever in utilising the whole of the balance held at credit of the Cauvery Power Scheme Depreciation Fund.

18. In the Ways and Means estimate the total amount, which can be utilised for capital expenditure out of the total balances at credit of deposits and other accounts, is calculated at Rs.103,15,000, while according to my estimate the amount is Rs.178,87,000. But from both these amounts we should deduct, as explained already, the balance at debit of the heads 'Loans and Advances' and "departmental and other accounts" For these amounts have been actually found by Government from the credit balances under the heads discussed above, The balances under these heads amounted on 1st July to Rs.33,34,000, but out of this Rs.5,15,000 has been advanced by reducing the cash balance from the prescribed maximum of Rs.75 lakh to Rs.69,85,000. Rs.28,19,000 should therefore be deducted from both my estimate and that adopted in the Ways and Means note. ~~If this deduction be made the ways and means estimate will come to Rs.74,96,000 and mine to Rs.1,50,66,000 the net excess of my estimate over the~~ My estimate of the funds available exceed the ways and means estimate by Rs.75,72,000; but Rs.2819000 has to be deducted from this, on account of the debit balances, mentioned above, which have been totally neglected in the ways and means note owing to an erroneous conception of the outstanding balances. The net excess avail-

available is thus 47 lakhs.

19. As I have mentioned above this result may be arrived at more easily from a consideration of the cash balance as well as the investments held by Government. The cash balance held by Government on the 1st July last was Rs.69,85,000 and the market value of the securities held by them was Rs.241,67,000 or a total of Rs.312,lakhs. The reserve necessary to be held by the State, in the form of liquid securities, to meet its various liabilities may be estimated as follows:-

	Thousands of Rupees.
Savings Bank Deposits ..	34,06
Provident Fund	6
Life Insurance Fund	3,63
Local and other funds	9,45
Famine Insurance Reserve	20,00
Other deposits	9,46
Sinking Fund for Permanent Debt	13,66
Total	90,32

In addition to this there should be a working cash balance of 75 lakhs. The total amount thus required is 165,32 or say 165 lakhs. Deducting this sum from the total amount held by the State in cash and securities, namely 312 lakhs, we get 147 lakhs as the amount held in excess by Government which might safely be utilised for capital expenditure. This practically agrees with the amount 103 + 47 or 150 lakhs calculated by me according to the method followed in the ways and means estimate subject to the important correction which has to be made on account of the outstanding advances &c.

20. The conclusion arrived at in the Ways and Means estimate is that it will be necessary to raise external loans to the extent of the whole of the optional capital expenditure in 1917-18, namely, Rs.24 lakhs, and the whole of both necessary and optional capital expenditure in 1918-19 namely 63 lakhs and 20 lakhs or Rs.107 lakhs in all.

21. According to my calculations, leaving the optional expenditure out of account, practically the whole of the necessary expenditure, namely 63 lakhs in 1918-19, can be met from existing resources without recourse to external loans except to the extent of a sum of Rs.16 lakhs. The estimates are always on the safe side and I have little doubt that later estimates will show an improvement, and that it will not be necessary to raise, by external loans, even the 16 lakhs mentioned above, for the necessary capital expenditure of either the next year or that of 1918-19. Thus, the actual cash balance on 1st July 1916 has turned out to be more than Rs.12 lakhs in excess of the Revised estimate. In fact in accordance with the principles which I have explained in paragraph 17 I would go a step further and hold a reserve in liquid securities only to the extent which might be required to enable the State to tide over a famine should it occur, i.e, the amount of the Famine Insurance Reserve and half the balance under Savings Bank deposits and the balance of the sinking fund for the repayment of the loan and would utilise the whole of the balances under the other heads instead of raising any external loans. This would set free a further sum of Rs.22,60,000 and would enable the State to carry out its programme of optional capital expenditure also for the next year, without any necessity for raising any external loans. If this view is accepted it would be necessary for the State to sell a considerable part of its holdings

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in Government securities. It was in this view, that I asked the Comptroller to submit to Government a proposal to convert as large a portionm of the 3½ per cent securities as we can, by purchasing conversion warrants. Government have however authorised him to convert only 5 lakhs of paper. I have not been informed on what grounds this decision has been arrived at. I am of opinion that in the immediate future it will be much easier to dispose of 4 per cent securities than 3½ per cents. I reiterate that in the interests of the State it is desirable to convert as much of the 3½ per cents as it could be found possible to do.

22. I should mention here, that the Balance Sheet, with which the State has been accustomed to work, does not contain a true statement of the real financial position of the State, as some of the most important assets namely, the capital, which the State has invested on real productive public works, is not included ~~in~~ at all in the same. Neither does it include the Sterling Loan raised through the M.&.S.M.Ry. Co. nor the balances at present held at credit of the Sinking Fund. I append a statement which shows the true assets and liabilities of the State on the 30th June of each of the last two financial years. From this it will be seen that the net assets of the State now amount to the magnificent sum of nearly six crores of rupees, or, excluding the cash balance required to maintain & the depreciation in the value of the securities held, about 5 crores of rupees, in addition to the resources which it always had, namely its various taxable and other sources of revenue.

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STATEMENT SHOWING THE

ASSETS AND LIABILITIES ON 30th JUNE 1915 AND 1916.

(In thousands of rupees)

A S S E T S.	30th June 1915		30th June 1916 based on preliminary accounts.	
1. Sinking Fund				
Railway Sterling Loan raised through M. & S.M. Ry. - Government Securities (Nominal value.)	89,87		93,73	
Cash	13	90,00	08	93,65
2. Capital Expenditure on				
(a) Railways	309,06		323,12	
(b) Tramways	3,34		3,68	
(c) Cauvery Power Scheme works	103,50		107,46	
(d) Productive Irrigation works (costing more than 3 lakhs and yielding more than 4% of the revenue)	82,16	498,06	109,09	543,35
3. Investment of surplus cash balance and of Sinking Fund contributions for the loan of 1906-07				
(a) Government Securities (Nominal value)	228,57		225,95	
(b) Other securities ,,, ...	28,11		28,12	
(c) Temporary fixed deposits	10,00	266,68	20,00	274,07
4. Loans		29,13		23,59
5. Advances		14,64		13,32
6. Cash Balance		72,27		82,06
Total Assets ..		970,78		1030,04
L I A B I L I T I E S.				
1. Loans raised by the State:-				
(a) Unclaimed balance of Mysore Railway Debenture Loan of 1882 redeemed in 1902	33		33	
(b) Railway Sterling Loan raised through M.&.S.M.Ry. Company	1,8000		1,8000	
(c) Mysore State Loan of 1906-07	2000	200,33	2000	200,33
2. Unfunded Debt:-				
(a) Savings Bank Deposits ,,, ,,, ,,	68,63		64,93	
(b) State Life Insurance Fund	32,65		36,12	
(c) Endowments	6,23		6,39	
(d) Other unfunded debt	18	107,69	91	108,35
3. Deposits of local and other funds bearing interest		2,37		2,77
4. Deposits not bearing interest		48,93		59,74
5. C.P.S. Depreciation Fund		31,20		33,85
6. Famine Insurance Fund ,,.		18,00		20,00
7. Remittances		9,34		9,39
Total Liabilities		4,17,86		4,34,43
Net Assets ,,, ...		5,52,92		5,95,61
GRAND TOTAL		9,70,78		10,30,04

23. The administration can therefore be justly proud of the results achieved by it, whereby it has succeeded in creating assets equal to the gross income of the State for nearly 2 years after making full provision for the two loans which it has raised in order to create a part only of these valuable assets and for the cash balance required to enable it to carry on its transaction

24. I am however not quite so sure about the present scale of the expenditure chargeable to revenue. Such expenditure appears to have grown at a tremendous rate during the last 5 years and I am unable to say at present how far this has been justified by the annual growth of its revenues. The revenue from the Gold Mines and that from the Cauvery Power Scheme introduce a complication which has to be carefully considered and I can therefore hope to be able to express a definite opinion only after I have, as mentioned already, made a detailed examination of the growth of revenue and expenditure under all heads and have considered what portion of the revenue from the Gold mines and the Cauvery Power Scheme is available for meeting the ordinary expenditure of the State.

K. L. Datta

15.10.16.

To

Sir M. Visvesvaraya, B.A., L.C.E., M.I.C.E.,K.C.I.E

W. D. 2725—GPB—2,000—5-5-16

Fo Rs 1703
22.11.16

REPLY.

(*To be written on this margin.*)

Office of the Dewan of Mysore.

NOTE.

Dated...22nd..November.....1916.

H Dis 619 of 1916-17.

Mr.Datta's notes dated 15th and 19th October, on the review of the financial position and the levy of export and import duties in the State, respectively.

****

Forwarded to the Financial Secretary for favour of further action.

2. The notes raise the following questions:-

(1) The proper mode of financing productive capital works in the State.

(2) Building up a system of State credit for financial purposes.

(3) The utilization of the income from the Gold Mines and the Cauvery Reservoir works for the annual expenditure of the State.

(4) The starting of a capitalization fund out of the mining revenues.

(5) Utilization of the deposit and other balances for purposes of capital expenditure.

(6) Mr.Datta's conclusions on the question of the levy of export and import duties.

3. I shall be obliged if the Financial Secretary will be good enough to exhibit in a statement form the conclusions of Mr.Datta and his own views

thereon and return the files for consideration in Council. It is requested that definite recommendations might be made with a view to facilitate the fina. disposal of each question at an early date.

22.11.16.

The Secretary,

Financial Department.

Return requested within a fortnight.

23/11

A statement and a note are submitted. If orders of Govt are noted on each point in the statement a confidential memorandum embodying the policy of Govt will be drawn up for record & future reference —

29/11

Dewan)

3120
30.11.16

D. 1194

To 2069
14-11-17

LAKE VIEW,
YELWAL ROAD,
MYSORE.

12th November 1917.

My dear sir,

I send herewith, the marginally noted files

1. Review of the Financial position
2. Levy of import and export duties.

received with your note of the 29th November 1916. It will be seen that in regard to the former subjects, the opinion of Government has been formed (as in the case of Financing Capital Works) or a decision has already been reached, (as in Utilisation of deposits), on most of the points referred to in your statement. Mr. Datta has, I believe, been asked to furnish a note on Building up a State Credit. So it appears that the Dewan's orders are not required at this stage on any of the questions except on the second file about the levy of import and export duties. May I suggest that this and any other points on which in your opinion orders are necessary may kindly be worked up through the Finance Committee in the usual course?

Yours sincerely,

Dewan Bahadur
J.S. Chakravarti Esqr., M.A.

WD 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2

General and Revenue Secretariat. | 37 File No. 247 of 1916.

Serial No.

1. Reference :- Mr. Datta's note dated 15th and 19th October 1916 on,

1. Review of financial position and

2. Export and Import duties, returned by the Private Secretary to Dewan, for being worked up, if necessary through the Finance Committee.

2. The points dealt with in the 2 notes are --

(1) The proper form of financing capital works - (Productive).

(2) Building up a state credit and formation of reserves for interest and sinking fund etc., and for financial purposes.

(3) Utilisation of the income from Gold Mines and Cauvery Power Scheme for normal expenditure.

(4) Formation of the capitalisation fund.

(5) Utilisation of the deposit and other balance for capital expenditure and limiting the liquid reserve to be kept in securities and disposal of securities in excess of the limit.

(6) Conversion of 3½ % paper to 4% to enable paper being readily sold.

(7) Additional taxation not necessary, the present financial position being sound.

(8) Imposition of an income-tax desirable to equalise taxation.

(9) Levy of export duties not desirable.

(10) If any duties are to be levied, import duties may be levied.

NOTE—Contn. sheet.

WD 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2)

General and Revenue Secretariat. | 87 File No. 247 of 1916.

Serial No.

3. As pointed out in these 2 notes Mr. Datta has since carefully reviewed the financial position, and submitted definite suggestions in all of them except the last two in his note on Decentralisation of Finance, Railway Redemption Fund, and Public debt and Investments.

Please note the purport & the no & date of last orders in each case. 19/12

4. Orders have been passed on all the subjects thus dealt with except the Income-tax, which is still pending consideration. 5- Government have adopted the scheme of financial settlement suggested by Mr. Datta, to provide for the several reserves to secure financial stability, to create a capitalisation fund, so as to utili all the available funds in the development of the administration. The liquid reserve has been fixed at 1 crore of rupees and arrangements are being made for disposing of all securities in excess of that amount to meet capital expenditu and conversion of 3½% paper 5% has been effected t the fullest extent possible.

5. The question of the levy of income-tax is no under the active consideration of Government and pending orders on that question no action at present seems necessary on the levy of eithe export or import duties.

In his note on Decentralisation of Finance Mr. Datta has suggested that the State's

financial

NOTE—Contn. sheet.

WD 1283—GPB—60,000—1-12-16—S.

G. R. S. III-2]

General and Revenue Secretariat. | § 7 File No. 247 - of 1916.

Serial No.

financial position shows that instead of there being any necessity for additional taxation, there is a normal annual surplus of a few lakhs available for utilisation as ~~revision~~ remission of taxation or otherwise.

6. In the above circumstances the papers may be ordered to lie over for the present.

Yesey) 17.12.17

Pl. see 1)

1) Vide margin of last page.

2) I think the export duties question requires careful consideration. Some merchants make a good profit by exporting the raw products of the State & do not pay anything for the securities & facilities they enjoy. Even an income-tax will not touch them as they may not have any office within the State. Only a judicious export duty — regulated in such a way as not to be capable of being shifted on to the producers — will touch these people — The export duties file may be separately proceeded with as the Fin. Committee have considered the matter & just passed final orders on the subject.

19/12

This has been separated 2.12. § 7-36/14 12/1

NOTE—Contn. sheet. 58

WD 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2.

General and Revenue Secretariat. | 57 File No. 247 of 1916.

Serial No.

Submitted with reference to the Financial Secretary's order on page 29 (vide margin). The information wanted is furnished below:—

1) The memorandum prefixed to the Budget estimates for 1917-18 (vide Go. No 223-72 Dy. 107-16-16 dy 13.7.17) is based on the scheme of financial settlement proposed by Mr. Datta, in which the following points are incidentally dealt with:—

(a) Adequate provision for capital expenditure

(b) Formation of Reserves for interest and sinking fund etc

(c) Utilisation of the income from Gold mines etc P.S., for normal expenditure

(d) Formation of the Capitalisation fund.

2) Govt order No 189 dy 12-7-17 authorises the Comptroller to convert 3½% paper to 4%.

3) G.O. No 4687-8 dated 23rd Feb 1917 G 7 159-16-2 authorises the sale of 3½% securities in small instalments of 6 lakhs at a time.

4) G.O. No 293-5 dy 14/7/17 G 7 159-16-15 authorises the Comptroller to purchase Sinkers Maharatta 4%

NOTE—Contn. sheet.

1194

WD 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2

General and Revenue Secretariat.

37 File No. 2[illegible] of 1916.

Serial No.

Railway debentures by raising loans in England and disposing 3½% paper and other investments, — the stock purchased being held against the balance of Famine Insurance Fund, the Sinking fund for the 4% loan 1906 etc.

2 MR
7

7 The subject was discussed at the meeting of the Finance committee held on the 30th March 1918 and an extract from the Proceedings of the meeting is put up.

Subd 15/4

Suppl. for II

Please put up a draft order as in the committee resolution, reading Mr Datta's note in the preamble

K
17.4.18

Draft. Submitted
for MR — A draft order is attempted.
20/4 ~~Order prepared~~

It is suggested that The Finance committee resolution may be placed before Council for consideration with the views of Dewan and 2nd member.

Secy) After the opinion of the Council is recorded the draft order prepared. K 7.5.18

NOTE—Contn. sheet.

As for the
revenue of the
present financial
position is covered
a separate file
has already been
opened - by 7247-16.
There is also a
draft in the file
as per Resolution
passed in the
Committee & approved
by the Board Secy-
ret
8/6.

1196

WD 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2

General and Revenue Secretariat. | G. 7 File No. 247 of 1916.

Serial No.

Please open separate files for each individual subject & submit with drafts according to instructions.

M
30/5

XXX
DS
30/5

This file shd concern itself with the Triennial forecast.
Please put up the previous forecast.
There is a separate file in this connection.
The Devan Sahib seems always to send his notes and memo in that file.
A draft note on the basis of the Fin Committee recommendations in this matter shd be put up.
It is

DS
10.6.18

Subd.

The following references are put up:-
(1) G.O. no: H 7281-326/G.7 183-12-1 dated 17th June 1913 passing orders on the Financial Secretary's forecast of the receipts and expenditure of the State for the triennium commencing from 1913-14

NOTE—Contn. sheet.

ND 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2]

General and Revenue Secretariat. | G-7 File No. 247 of 1916-17

Serial No.

(2) Revised Ways & means ~~Estimate~~ note for the year 1914-15 & a rough Financial forecast for the triennium commencing with that year

(3) Financial Forecast for the triennium commencing with 1915-16 with G.O. no: H 2685-G.F. 116-15-1 dated 15th December reviewing the same

(4) G.F. 62-16, Serial 1 Part B for January 1917 relating to the financial forecast for the triennium commencing with 1916-17.

Draft G.O. on the lines of the Finance Committees recommendation approved of by the Asst-Secy on 7.5.18 is resubd

Hon. Dr 30/6/18

This reference is invited to Principal Heads of Departments orders dt 27.6.1917.

'In view of the scheme of financial settlement recently sanctioned, it appears ~~appears~~ no orders are necessary on this file' (relating to the forecast for the triennium commencing with 1916-1917).

2) The Finance Committee have after consideration of the matter resolved that a triennial forecast should be

D 1369/18

G. R. S. III-2]

General and Revenue Secretariat. | 97 File No. 247 of 1916.

Serial No.

prepared and submitted herewith.

3) In the recent p.o. of 22.6.1918, the ~~selection~~ preparation ~~and~~ of the Technical present- is specially mentioned as one of the functions assigned to the Survey.
Draft- as per Finn committee resolution - is submitted

Survey)

18/
2.7.18

W/
1877

18th member
Dewan)

18/
15/7/18

Well
16/7

18/
Hj

May issue)
30.7.18 Do

Issue today
Standing order

18/
30.7.18

3 To The Comptroller
" Several Secretaries to Govt
" Heads of Departments
No: H 601-50 D 30/7/18

W.L. A 1799—GPB—60,000—20-3-19—S.

G. R. S. III-2j

General and Revenue Secretariat.

G. 7 File No. 247 of 1916.

Serial No.

Directs that after the budget estimates of each year are finally settled a triennial forecast should be prepared reviewing the capital programme and general financial condition of the State and the ways and means operations for three years ahead and laid to Govt for orders & accordingly requests the Comptr to prepare a forecast for the triennium commencing with 1918-19 & submit the same to Govt before the end of August 1918.

NOTE—Contn. sheet.

Extract from the proceedings of the meeting of the Finance Committee held on Saturday the 30th March 1918.

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2. Review of the present financial position:- Resolved that after the budget estimates of each year are settled a triennial forecast should be prepared in proper form reviewing the capital programme and general financial condition of the State for three years ahead and should be submitted to Government for orders.

ii. The normal programme of capital works for the next

next five or ten years may be fixed at 70 lakhs per annum as shewn below:-

Railways	..	20 lakhs	(as already decided in G.O.No. Rev+25-3430 dated 15.5.1917. Rev 42-1617)
Irrigation	..	20 ,,	
Electrical works and ordinary industrial works	..	20 ,,	
Contribution to industrial development Fund		10 ,,	Vide clause iv infra
		70 lakhs	

iii. Other special and large industrial productive works requiring heavy outlay such as Iron Scheme and Bhatkal Project should be financed separately by separate loans -- raised for the particular purpose.

iv. With a view to attract local capital and stimulate enterprise in starting new industries in the State on a systematic basis it is considered desirable to start an industrial development fund and invite the public to subscribe to that fund. Government may make an annual contribution of ten lakhs from State Funds for a period of ten years and the public may be asked to contribute to the Fund with a view of taking up shares in industrial concerns that may be started hereafter on condition that the amount will not be withdrawn but will be used for one or other works that may be started. The public will be paid a reasonable rate of interest on the amount paid to the fund till it is invested in any concern. The Financial Secretary will kindly prepare a detailed scheme for starting this industrial development fund.

v. The normal provision of 70 lakhs required for capital expenditure will, in the first instance, be met from the reserves and credit balances under departmental heads to the extent of 40 to 50 lakhs and the balance of about 20 to 30 lakhs should be annually borrowed by issuing debentures and pro-notes

G.R.S. 28]

G7 **File No.** 247-16.
Serial No. 3.

*Diary No. of letter replied to*_____

Proceedings of the Government of His Highness the Maharaja of Mysore

GENERAL AND REVENUE SECRETARIAT.
( )

, *the* 191

READ—

Note dy 15-10-16 by Mr. K.D. Datta Special Officer on the method of preparing a review of the financial position of the State.

Date of issue 30 July

Signed by W Sreenivasaraya

ORDER THEREON.—No. H 601-50 dy 30 July/18
Govt. are pleased to direct that after the budget Estimates of each year are finally settled a triennial forecast shall be prepared reviewing the Capital programme and general financial over.

1) S standing order.
2) Note printed.

SUBJECT.

GPB—50,000—1-12-12

Condition of the Rly for three years ahead and subsidiary Govt: services. and railways and new operations

2- The Compte is according Govt: to prepare a forecast for the triennium commencing with 1916-17 and which the new Govt: keeps the end of August 1916.

Wee 16/7/16

W 13/7 Feby 1917

W 21/7/16

The Compte.
The Financial Secy Govt.
Head of Dept.